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Hungary

Grain and Feed

New EU Intervention Standards Likely to Dampen Hungarian Corn Prices

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Report Highlights:
Hungary, a major corn producer and the majority holder of EU corn intervention stocks, expressed disappointment with the Commission's new corn quality criteria that will be introduced November 1, 2006. The new parameters are expected to reduce the amount of crop that will be eligible for intervention, and as such, will increase production costs and reduce domestic corn prices. Representatives of major farm organizations and the Association of Grain Traders and Millers also expressed disagreement with the new intervention rules.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1]
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As of November 1, 2006 (the re-opening date of the EU grain intervention purchase period), Brussels will require more stringent quality requirements for corn offered for intervention from the 2006 crop.

Quality criteria include:	Old Requirement	New Requirement
Moisture	max. 14.5%	max. 13.5%
Broken kernels	max. 10%	max. 5%
Heat damaged kernels	max. 3%	max. 0.5%
Specific weight	-	71 kg/hectoliter

According to Gabona Control (an accredited grain quality laboratory of the Government of Hungary), the share of Hungary's new corn crop that will meet these requirements may be limited due to heat-damaged kernels and the new specific weight categories. The lower moisture and higher specific weight requirements are expected to increase Hungarian production costs by an estimated USD 2.54/MT.

As a result, forecasts by the Ministry of Agriculture and Rural Development (MARD) project that only 55 to 65 percent of the 2006 corn crop will be eligible for intervention. At present, harvest has just begun, and the weather during harvest may influence crop quality greatly. During the last two years, about 30 percent of Hungary's annual harvest was offered for intervention. This 5.5 million MT represents about eighty percent of total EU corn intervention purchases for the last two crop years.

MARD expects an 8 million MT corn crop this year. Actual spot corn prices are about HUF 26,000-28,000/MT (USD 121-130/MT), which is above the price of the same period last year. However, prices may be pressured downwards because of the new intervention requirements, unfavorable weather conditions during harvest, and limited logistical means for export sales. Early 2007 futures prices at the Budapest Commodity Exchange have stopped rising as a result of the newly published measures.

The Government of Hungary sent a letter to the Commission protesting the new rules with the State Secretary of MARD reporting to the press that, "It is unprecedented to change the rules of the intervention in the middle of the crop year." Representatives of major farm organizations and the Association of Grain Traders and Millers have also expressed disagreement with the new intervention rules.